



Corporate governance and voting policy

Jupiter's approach
to UK voting,
engagement and
corporate responsibility

2005

CONTENTS

Page

Our Policy 2

Jupiter's Approach to UK Voting 3

■ *The Board and its Committees* 4

■ *Auditors and Internal Control* 9

■ *Remuneration* 11

■ *Capital* 14

■ *Sundry* 16

Jupiter's Approach to Engagement 20

Jupiter's Approach to Corporate Responsibility 22

About Jupiter 25

‘With more than seventeen years experience in socially responsible investment and engagement, Jupiter Asset Management is a firm believer in good governance and the exercise of voting rights of shareholders. In our view, the link between wealth creation and corporate governance is strengthening and we are encouraged to see the Government taking an active role in working to improve the transparency and accountability of companies by making the Operating and Financial Review mandatory for quoted companies.

We firmly believe that we have added, and will continue to add, real value for investors through the active management of our relationships with companies and, ultimately, through the considered execution of our voting rights. But creating value is not the only driver behind our stance on corporate governance. If we, as an industry, forge greater understanding of the proactive role we take, investors may come to a greater understanding of how we seek to protect their interests. This can undoubtedly play a role in helping the fund management industry restore trust with investors.’

Edward Bonham Carter

Joint Chief Executive and Chief Investment Officer

Our Policy

Jupiter believes that shareholders have a vital role to play in encouraging a higher level of corporate performance. One of the ways to achieve this is through responsible shareholding by adopting a positive approach to corporate governance and engagement. Jupiter seeks to invest in companies that are first and foremost well managed, with high standards of corporate governance and corporate responsibility, which create an appropriate corporate culture to enhance long-term shareholder value. We believe that the most effective way of implementing our engagement policy on behalf of clients is to focus on those companies in which we have a significant shareholding. Jupiter’s approach to corporate governance and engagement is written in accordance with the ‘Responsibilities of Institutional Shareholders and Agents – Statement of Principles’ drawn up by the Institutional Shareholders’ Committee.

Jupiter's Approach to UK Voting:-

Combined Code

The Combined Code is a set of corporate governance principles and code provisions applicable to all listed companies in the United Kingdom. The Combined Code embraces the initial recommendations of the Cadbury, Hampel and Greenbury Committees as well as the more recent Turnbull and Smith Guidances and the Higgs' Suggestions for Good Practice. Jupiter believes that UK companies should comply with the spirit and principles of the Combined Code, or provide an adequate explanation where they fail to comply.

Our Policy also reflects the best practice guidelines developed by industry bodies such as the National Association of Pension Funds, the Association of British Insurers and the Association of Investment Trust companies as well as reviews and reports published in 2004 and in early 2005.¹

Voting

Jupiter believes that shareholders, particularly institutional, should exercise their corporate governance rights, including voting at general meetings. In deciding how to vote, Jupiter follows the Combined Code as its standard approach to corporate governance voting for UK companies in which we invest. We subscribe to Research, Recommendations and Electronic Voting (RREV), a joint venture between the National Association of Pension Funds (NAPF) and Institutional Shareholder Services (ISS) and IVIS, the Association of British Insurers' (ABI) institutional voting information service to assist us in assessing the corporate governance of companies.

Consideration is given to all relevant factors and all explanations for non-compliance are carefully evaluated. However, if we deem the explanation or assurance from the company to be inadequate and not in the best interest of shareholders, we will vote against management. All contentious issues are identified and, where necessary, will be discussed with investee companies, corporate governance providers and/or our clients.

The Socially Responsible Investment and Governance Team ensures that our policy is voted in practice and that timely voting decisions are made. Jupiter votes on UK listed companies and other investment vehicles which are covered by RREV and IVIS. As institutional shareholders we will endeavour to ensure our voting intentions are executed.

¹ These include: (i) DTI commissioned study into *The impact of shareholders' pre-emption rights on a public company's ability to raise new capital* by Paul Myners (final report January 2005) (www.dti.gov.uk/cld/public/htm), (ii) HM Treasury commissioned *Myners principles for institutional investment decision making: review of progress* (published December 2004) (www.hm-treasury.gov.uk), (iii) DTI commissioned Deloitte & Touche report on *The impact of the Directors' Remuneration Report Regulations* (published January 2005) (www.dti.gov.uk/cld/Deloitte_Rep_DRRR_2004.pdf) and (iv) *Review of the impediments to voting UK shares* by Paul Myners (published in March 2005) (www.investmentuk.org/press/2005/20050314-01.pdf) and (v) *Exposure Draft, Reporting Standard 1, Operating and Financial Review* (November 2004) (www.frc.org.uk)

Jupiter's standard approach to voting is set out below:

The Board and its Committees

Jupiter fully endorses the main principle of the Combined Code that 'Every company should be headed by an effective board, which is collectively responsible for the success of the company'. The board should provide entrepreneurial leadership and set the company's strategic aims, values and standards, whilst ensuring that prudent and effective controls are in place to enable risk to be assessed and managed. At least half the members of the board, excluding the chairman, should be independent non-executive directors, with the balance consisting of a strong executive representation. The board should appoint one of the independent non-executive directors to be the senior independent director.

The board and its committees should meet regularly and details included in the report and accounts. The chairman should hold meetings with the non-executive directors without the executive directors present. Led by the senior independent director, the non-executive directors should meet without the chairman present to appraise the chairman's performance, and on other occasions as deemed appropriate.

Chairman and Chief Executive

Jupiter believes that the positions of chairman and chief executive should be separated and will normally vote against the election of a director holding both positions. Separation of these two positions differentiates the two key tasks at the top of the company – the running of the board and the executive responsibility for the running of the business – and should ensure a balance of power and authority. The division of responsibilities between the chairman and chief executive should be set out in writing and agreed by the board. If, in exceptional circumstances, the roles are combined there should be a strong non-executive component on the board, with a recognised senior member (the senior independent director). The company should provide an explanation as to why these roles are combined and a time frame for the separation of these roles.

We are not in favour of a chief executive going on to become chairman of the same company. However, if exceptionally, a board decides that a chief executive should become chairman, the board should consult major shareholders in advance and should set out its reasons to shareholders at the time of the appointment and in the next report and accounts. We expect a company to disclose if this appointment is to provide continuity during a period of transition. In normal circumstances, at the time of appointment, the chairman should meet the test of independence.

Jupiter regards the chairman as pivotal in creating the conditions for overall board and individual non-executive director effectiveness, both inside and outside the boardroom, and for ensuring constructive relations between executive and non-executive directors. The chairman should be responsible for leadership of the board and setting its agenda, ensuring the provision of accurate, timely and clear information to directors, ensuring effective communication with shareholders and arranging the regular evaluation of the performance of the board, its committees and individual directors.

Non-Executive Directors

The majority of non-executive directors should be independent of management and without conflicts of interest, having been selected by a formal, recognised process such as a nomination committee, to represent effectively the interests of shareholders. Non-executive directors should constructively challenge and help develop proposals on strategy, scrutinise performance of management and satisfy themselves on the integrity of financial information. They are also responsible for determining appropriate remuneration for executive directors and have a prime role in appointing and removing executive directors and succession planning. The company should arrange appropriate insurance cover in respect of legal action against its directors.

In determining the independence of non-executive directors, Jupiter follows the guidelines of the Combined Code, supported by guidance from the NAPF and ABI, including if the director:

- *has been an employee of the company or group within the last five years*
- *has, or has had within the last three years, a material business relationship with the company either directly or connected to a company that has such a relationship with the company*
- *has received or receives additional remuneration from the company apart from a director's fee, participates in the company's share option or a performance-related pay scheme, or is a member of the company's pension scheme*
- *has cross directorships with other directors*
- *has close family ties with any of the company's advisers, directors or senior employees*
- *represents a significant shareholder*
- *has served on the board for more than nine years from the date of their first election.*

On resignation, a non-executive director should provide a written statement to the chairman, for circulation to the board.

Appointments to the Board

There should be a formal, rigorous and transparent procedure for the nomination and the appointment of directors to the board. We expect the board to have in place appropriate arrangements for succession planning.

The Nomination Committee

A nomination committee, comprising a minimum of three directors, the majority of whom should be independent non-executive directors, and chaired by the chairman or an independent non-executive director, should lead the nomination process and make recommendations to the board. The terms of reference and activities of the nomination committee and the process used for appointments should be available upon request. Shareholders should be given sufficient information on the directors presented for election to allow them to make an informed choice.

The nomination committee should not be chaired by the chairman when dealing with the appointment of a successor to the chairmanship. When appointing a new chairman, the senior independent director or deputy chairman, if independent, should lead the appointment process. The nomination committee should also satisfy itself that processes and plans are in place for the orderly succession of appointments to the board and for senior management to maintain an appropriate balance of skills and experience within the company and on the board.

On appointment, non-executive directors should receive a letter setting out what is expected of them in terms of time commitment, committee membership and involvement outside board meetings. The nomination committee should review annually the time required of non-executive directors. In return, non-executive directors should disclose to the chairman the nature and extent of their other appointments and confirm that they will have the available time required for their role. The board should not agree to a full time executive director taking on more than one non-executive directorship of a FTSE 100 company nor the chairmanship of such a company. No individual should be appointed to a second chairmanship of a FTSE 100 company. Chairmen of listed companies should encourage and facilitate their executive directors and suitable senior management just below board level to take one non-executive position on a non-competitor board.

Re-election

All directors, both executive and non-executive, should be subject to election by shareholders at the first annual general meeting after their appointment and to re-election thereafter at least once every three years subject to continued satisfactory performance. The names of directors submitted for election or re-election should be accompanied by sufficient biographical details to enable shareholders to make an informed decision. For a non-executive director, any term beyond six years should be subject to a particularly rigorous review. Non-executive directors may serve more than nine years subject to annual re-election but this could be relevant when determining the independence of the non-executive director. The board should identify in the report and accounts each non-executive director it considers to be independent and the onus is on companies to provide an explanation if there are any circumstances or relationships which are likely to affect independence. Where the independence of a director is unclear, Jupiter will evaluate all the circumstances including the proportion of independent non-executive directors on the board, and whether the director serves on a committee which should comprise solely of independent non-executive directors. We endorse the view that reasons should be offered when directors aged over 70 are re-appointed to the board.

The Remuneration Committee

The remuneration committee should consist entirely of independent non-executive directors and have at least three members, or two members in the case of smaller companies. The remuneration committee should have delegated responsibility from the Board for setting remuneration for all executive directors and the chairman, including pension rights and any compensation payments, and should make available its terms of reference, its role and the authority delegated to it by the board. The committee should also be responsible for appointing any consultants in respect of executive director remuneration. We believe that the remuneration policy adopted by the committee should be clear and transparent, and be subject to separate shareholder approval at the annual general meeting. The chairman of the board should ensure that the company maintains contact with its principal shareholders with regard to remuneration.

The Audit Committee

The audit committee should consist entirely of independent non-executive directors, and have at least three members, or two in the case of smaller companies; with one member having recent and relevant financial experience. The main role and responsibilities of the audit committee should be set out in writing and include monitoring the integrity of the financial statements, reviewing significant financial reporting judgements and the company's internal financial control and risk management systems, as well as monitoring and reviewing the effectiveness of the company's internal audit function. The audit committee should also make recommendations to the board in relation to the appointment, remuneration and terms of engagement of the external auditor, and develop and implement policy on the engagement of the external auditor to supply non-audit services. It should also have the principal responsibility for making recommendations on auditor appointment to shareholders.

Auditors and Internal Control

An independent audit is essential for good corporate governance and provides a safeguard for the shareholder. Accordingly, any change of auditors, that has been agreed by the board as part of a planned review or for any other reason, should be fully explained and justified to shareholders. There should also be a full disclosure of any non-audit work and related fees in the report and accounts, particularly if this work is also being undertaken by the auditor, together with an explanation as to why their independence is not compromised.

Internal Control

The board should follow the Turnbull Guidance on Internal Control by establishing formal and transparent arrangements for considering how the financial reporting and internal control principles should be applied. The board should maintain a sound system of internal control to safeguard shareholders' investments and the company's assets and report on this to shareholders.

Accountability

The board should present a balanced and understandable assessment of the company's position and prospects and this responsibility extends to interim and other price-sensitive public reports. The board is also responsible for maintaining an appropriate relationship with the company's auditors. The directors should explain in the report and accounts their responsibility for preparing the accounts and there should also be a statement by the auditors about their reporting responsibilities. The board should, at least annually, conduct a review of the effectiveness of the group's systems of internal control and should report to shareholders that they have done so. The review should cover all material controls, including financial, operational and compliance controls and risk management systems.

Information

The board should be supplied in a timely manner with information in a form and of a quality appropriate to enable it to discharge its duties. The chairman is responsible for ensuring that the directors receive accurate, timely and clear information. Under the direction of the chairman, the company secretary's responsibilities include ensuring good information flows within the board and its committees and between senior management and non-executive directors.

Professional Development

The chairman should ensure that all new directors receive a full, formal and tailored induction on joining the board. Directors should regularly update and refresh their skills and knowledge to fulfil their role both on the board and on board committees. The performance of the board, its committees and its individual members, should be evaluated at least once a year and it should be stated in the report and accounts whether such performance reviews are taking place and how they are conducted.

Governance

The company secretary should be responsible for advising the board, through the chairman, on all matters of governance.

Remuneration

Remuneration & Remuneration Policy

Remuneration should be sufficient to attract, retain and motivate directors to run the company successfully. Performance-related elements of remuneration should form a significant proportion of the total remuneration package of executive directors and should be designed to align their interests with those of shareholders and to give these directors keen incentives to perform at the highest levels.

The remuneration policy for executive directors should be clear and transparent, and should be subject to separate approval at the annual general meeting. No director should be involved in deciding their own remuneration. Independent advisers should be appointed by the remuneration committee and not by the executive directors.

Jupiter is strongly opposed to rewarding failure or poor performance and believes that the remuneration committee should carefully consider what compensation commitments (including pension contributions and all other elements) their directors' terms of appointment would entail in the event of early termination. The remuneration committee should take a robust line on restricting severance compensation and also take account of the circumstances of termination and of a director's duty and opportunity to mitigate loss, so as to reduce costs to the company. Notice or contract periods should be set at one year or less and where these limits are exceeded, companies will be encouraged to comply with best practice. Jupiter will not support policies that permit compensation to be paid to directors for reducing their contract periods or in the event of a change in control of a company, nor for enhanced notice periods. If it is necessary to offer longer notice or contract periods to new directors recruited from outside, such periods should reduce to one year or less after the initial period and an explanation should be included in the report and accounts.

Where a company releases an executive director to serve as a non-executive director elsewhere, the remuneration report should include a statement as to whether or not the director will retain earnings from this non-executive directorship and, if so, what the remuneration is.

Non-Executive Directors

The board itself, or the shareholders where required, should determine the remuneration of the non-executive directors (including the chairman) and this should reflect the time commitment and responsibilities of the role. While we do not approve of non-executive

directors participating in option or long-term incentive plans, we are not averse to part of their remuneration being paid in shares which have to be retained while in office. If, exceptionally, options are granted, shareholder approval should be sought in advance and any shares acquired by the exercise of the options should be held until at least one year after the non-executive director leaves the board. The holding of share options or being paid disproportionately high fees could be relevant to the determination of a non-executive director's independence.

Incentive Remuneration

Shareholders are required to approve all new long-term incentive schemes and significant changes to existing schemes. Jupiter generally supports incentive schemes which comply with the ABI Principles and Guidelines on Executive Remuneration and follows its advice regarding the suitability of the scheme. Executive share options should not be offered at a discount save as permitted by the relevant provisions of the Listing Rules and we believe that share option grants should not be awarded in one large block but instead phased. Directors' and shareholders' interests should be aligned and therefore Jupiter supports grants of options to directors as part of their overall package. We believe that share option schemes and other incentive schemes should reward high performance that adds significantly to shareholder value and that below median performance should not be rewarded. Performance targets for long-term incentive plans should be demanding and appropriate for the company's circumstances and prospects. Where schemes have a provision for the award of matching shares, we would generally expect additional performance conditions to govern this award of shares.

The length of the measurement period for share incentive schemes should be a minimum of three years and vesting should not be earlier than three years from the date of grant. Jupiter is not supportive of share schemes that automatically vest on a change in control of a company and believes that vesting should be on a pro-rata basis, taking into account the vesting period that has elapsed at the time of the change in control.

Jupiter does not agree to the re-pricing of share options due to the underperformance of the company share price or any re-testing of performance. However, in circumstances outside the control of the company, such as a decline in markets in general, this will be carefully considered.

All-Employee Share Schemes and Dilution Limits

Jupiter supports all-employee share schemes because they serve to align the interests of both employees and companies. However, such schemes should operate within best practice and dilution guidelines. Share incentive schemes of companies when aggregated should comply with ABI dilution limits of not more than 10% of the issued share capital in a 10 year period.

Remuneration Reports

The Directors' Remuneration Report Regulations 2002 ('Regulations') require companies to produce a detailed annual directors' remuneration report which must be put to a separate shareholders' vote at the annual general meeting. The Regulations also stipulate that companies disclose all information that shareholders need in order to take an informed view of the remuneration policy, arrangements and practices. Jupiter will not support the remuneration report if it considers the remuneration policy and practices do not meet best practice guidelines as set out in the Combined Code, the ABI Principles and Guidelines on Executive Remuneration and other relevant industry guidelines.

Capital

Authority to Issue Shares and Pre-emption Rights

Jupiter supports the allotment of shares by companies provided shareholder approval has been sought as required by Sections 80 and 95 of the Companies Act 1985. We believe that pre-emption rights (whereby companies issue shares for cash by first offering them to existing shareholders) provide an important protection for shareholders against their shareholding being diluted. Jupiter will generally support the application of pre-emption rights (Section 80) up to 33% of the company's issued ordinary share capital in one year and the disapplication of pre-emption rights (Section 95) up to 5% of the company's issued ordinary share capital in one year. These applications should comply with the current guidance of the Pre-Emption Group of the London Stock Exchange, the ABI and NAPF. Jupiter will usually vote against the waiver of pre-emption rights beyond these limits, other than in exceptional circumstances. Such authorities should be renewed annually and disapplication of pre-emption rights should not exceed 7.5% of the issued ordinary share capital over three years.

We support Paul Myners' recent recommendations that companies should engage directly with shareholders when they seek to issue shares in excess of the current guidelines. This dialogue should provide shareholders with the relevant information to evaluate the merits on an individual basis and determine whether it is in their best interests.

Share Repurchase/Buybacks

Jupiter normally supports share repurchases provided the requirements of the Companies Act, Listing Rules and relevant shareholder guidance are met, and that the board demonstrates that it is an appropriate use of the company's cash resources and is in the best interests of shareholders as a whole. Jupiter would expect an adjustment to performance targets in executive or share incentive schemes to take account of any increase in earnings per share. Jupiter is cautious about the policy of share buybacks in lieu of dividends and votes on a case by case basis.

Restricted Voting Rights

Jupiter does not endorse the practice of issuing ordinary shares with restricted voting rights as it believes in the principle of 'one share, one vote'.

Dividend Policy

A separate resolution in respect of dividends should be proposed and Jupiter will support the resolution provided the dividend is adequately covered by earnings. If it is not then there should be sufficient free cash flow available and justification should be provided by the directors.

In a world of modest growth, dividends are likely to provide a considerable part of a shareholder's total return. Given that the average tenure of a chief executive officer is three years, there might be an incentive to concentrate on short-term earnings performance at the expense of the longer-term business. In order to help correct any potential imbalance, Jupiter would like to see company boards give their full attention to the setting of a 'through the cycle' dividend policy. This would reassure us that the custodians of the company's capital are not inadvertently driven by a three year options package to the detriment of wider concerns. Commitment to a 'through the cycle' dividend policy is the simplest way in which company management can demonstrate its commitment to the long-term stewardship of capital to a wide variety of shareholders.

Jupiter also draws attention to the use of the word 'progressive' as in, 'It is the policy of this company to pursue a progressive dividend policy.' This word is too often used to promise much while delivering little. Where a company tells shareholders that it intends to pursue a progressive dividend policy we would also like the company to state with some useful degree of precision just what it means by the term. For example 'progressive' might mean: a) any nominal increase in the dividend, b) an increase roughly in line with inflation, c) a rate of increase clearly greater than inflation, etc. Jupiter considers such a discipline to be integral to the setting of a 'through the cycle' policy.

Jupiter generally approves the issue of a scrip dividend as long as shareholders are also offered a cash alternative.

Sundry

Political Expenditure

In accordance with the Political Parties, Elections and Referendums Act 2000, companies wishing to incur EU political expenditure must obtain prior shareholder approval and such resolutions, once passed, should be voted on by shareholders at least every four years. Jupiter will support these resolutions provided companies state that they will not make political donations in the generally accepted sense.

Dialogue with Institutional Shareholders

Jupiter believes that active management of our relationships with companies based on a mutual understanding of objectives adds real value for investors. The board as a whole has responsibility for ensuring that a satisfactory dialogue with shareholders takes place. Whilst recognising that most shareholder contact is with the chief executive and finance director, the chairman (and the senior independent director and other directors as appropriate) should maintain sufficient contact with major shareholders to understand their issues and concerns. We believe it is important for companies to engage with shareholders on corporate governance issues, in particular remuneration, succession planning and issuing shares in excess of current guidelines. This engagement should be initiated prior to the publication of any relevant formal documentation to shareholders.

The chairman should ensure that the views of shareholders are communicated to the board as a whole. The chairman should discuss governance and strategy with major shareholders. Non-executive directors should be offered the opportunity to attend meetings with major shareholders and should expect to attend them if requested by these shareholders. The senior independent director should attend sufficient meetings with a range of major shareholders to listen to their views in order to help develop a balanced understanding of the issues and concerns of major shareholders. The board should state in the report and accounts the steps they have taken to ensure that the members of the board, and in particular the non-executive directors, develop an understanding of the views of major shareholders about their company, for example through meetings, analysts' or brokers' briefings and surveys of shareholder opinion.

Conflicts of Interest

A conflict of interest may arise when we have concerns about an investee company whose pension scheme is also a client. In these circumstances, the matter would be referred to the chief investment officer and a decision would be made in the best interests of all our clients.

Support of Company Management

Jupiter supports the management of a company that acts in the long-term interests of shareholders.

Takeovers and Mergers

Jupiter will assess each case individually and our decisions will be based primarily on our analysts' and fund managers' view as to whether the proposal is in the best interest of shareholders. Where appropriate, corporate governance issues will also be considered.

In the case of a hostile takeover, each case is reviewed individually.

Anti-Takeover Measures

Jupiter does not support anti-takeover devices which could potentially damage shareholder value.

Report and Accounts

Companies should be as transparent as possible within their report and accounts, so that investors can obtain a clear understanding of all important and relevant issues. This includes any significant corporate responsibility issues.

In our view, the Operating and Financial Review (OFR) will provide an excellent opportunity for the fund management industry to improve dialogue with companies on a range of factors that will underpin long-term business profitability and returns for shareholders. A number of requirements of the OFR have not traditionally been covered in report and accounts, such as relevant reporting on employee issues, changes in the regulatory environment and brand management.

Meetings

Jupiter believes that the board should use the annual general meeting to communicate with shareholders and to actively encourage their participation. The chairman should arrange for the chairmen of the audit, remuneration and nomination committees to be available to answer questions and for all other directors to attend. A balanced and understandable assessment of the company's position and prospects should be presented, together with the report and accounts for shareholder approval. Companies should propose a resolution on each substantially separate issue and each resolution should have a sufficient explanation to enable shareholders to vote on an informed basis. Non-routine resolutions will be assessed on their merit. To improve the effectiveness of the voting process, in that shareholders' votes are executed successfully, companies should: facilitate electronic voting, call for a poll on all resolutions at meetings, provide a vote-withheld option and also make available the voting results for each resolution.

Resolutions proposed at extraordinary general meetings frequently concern investment decisions such as takeovers, mergers or capital reorganisations. In these circumstances, a 'house' decision will be made following consultation with fund managers.

Jupiter will attend meetings when practicable and when circumstances warrant.

Memorandum and Articles of Association

Any proposed changes to a company's memorandum and articles should be fully explained and clearly drafted and, if proposed changes are significant, they should not be 'bundled' into a single resolution.

Smaller Companies

Jupiter believes that smaller companies should endeavour to meet all the Combined Code requirements but accepts that in some cases it may not be practical for smaller companies to achieve this, e.g. with respect to the proportion of non-executive directors on the board and board committees.

Investment Trusts

There are a number of factors that apply to investment trusts where the characteristics of investment trusts suggest that alternative approaches to those set out in the Combined Code and/or the policies described above may be more appropriate. The independent boards of all of the Association of Investment Trust Companies' (AITC) member investment trusts currently managed by Jupiter support the AITC's initiative in publishing its 'Code of Corporate Governance' for investment trusts (available from www.aitc.co.uk). The AITC code is intended to form a comprehensive guide to best practice in these areas for investment trusts and, although it has some overlap with the Combined Code and the policies outlined above, it also has certain points of difference. These include:

- the majority of non-executive directors on the boards of investment trusts should be independent of the investment manager
- the chairman should also be an independent non-executive director and the committees of the board responsible for the oversight of audit arrangements and the engagement of investment managers should consist entirely of independent non-executive directors
- management contracts should not contain termination provisions requiring notice exceeding 12 months
- and the basis of selection and review of investment managers should be disclosed in the report and accounts.

Jupiter's Approach to Engagement:-

Jupiter believes that it is important to engage with companies on behalf of its clients to promote more responsible business practice on corporate governance, environmental and social issues. In our view, the most effective way of implementing our engagement policy is to focus on those investee companies in which we have a meaningful shareholding.

Jupiter supports the 'The Responsibilities of Institutional Shareholders and Agents – Statement of Principles' drawn up by the Institutional Shareholders' Committee (ISC).

The main principles are to:

- *set out policy on how Jupiter will discharge its responsibilities*
- *monitor the performance of, and establish, where necessary, a regular dialogue with investee companies*
- *intervene where necessary*
- *evaluate the impact of engagement*
- *report back to clients/beneficial owners.*

Policy

Jupiter's approach to corporate governance (detailed on pages 2 to 19) and engagement (detailed on pages 20 to 21) is written in accordance with the ISC's Statement of Principles. Jupiter's published policy is also available on the Jupiter website: www.jupiteronline.co.uk.

Monitoring Performance and Dialogue with Investee Companies

The performance of investee companies is monitored by in-house research analysts and fund managers. It is supplemented by external research. Jupiter's Socially Responsible Investment and Governance Team (SRI and Governance Team) plays an integral part in the monitoring process.

However, Jupiter believes an important part of this process is the dialogue (usually private) between institutional shareholders and the companies in which it invests. As such, its fund managers and analysts host and attend regular meetings with the management of investee companies, with a high percentage of companies being seen twice a year where corporate strategy, performance and other management issues are discussed.

In addition to these meetings, Jupiter's experienced SRI and Governance Team actively engages on corporate governance, environmental and social issues. Jupiter's approach to corporate responsibility is detailed on pages 22 to 24.

Intervention

Jupiter regularly meets with the management of companies in which it invests to discuss corporate strategy, performance and other management issues. Where appropriate, contentious issues such as executive remuneration and incentive plans are also raised. In the first instance, Jupiter will normally raise a matter of concern with an investee company privately. However, if the matter is not resolved satisfactorily, or the company does not respond constructively, further steps may involve voting appropriately at the company's AGM or EGM, proposing a shareholder resolution or requisitioning an EGM. Additionally Jupiter may speak to other shareholders to discuss joint intervention. Jupiter will at all stages consider whether it wishes to continue holding the shares or dispose of them.

Evaluation of Impact of Engagement

Jupiter will monitor and assess the effectiveness of its engagement in accordance with the ISC's Statement of Principles, initially through reporting how votes were cast at AGMs/EGMs, the number of meetings voted at and consequences subsequent to shareholder voting at meetings.

We are pleased that the ISC is convening a working group of practitioners to compare experiences and draw conclusions about the usefulness of particular approaches. We also welcome initiatives such as the UK Social Investment Forum's Transparency Guidelines for Engagement and Voting in Institutional Investment which provide a consistent framework for fund managers to disclose their approach to engagement and voting.

Reporting to Clients/Beneficial Owners

Jupiter will keep its clients informed on the impact of its engagement as outlined above through biannual Voting and Engagement Reports. Our Voting and Engagement Report will highlight some of the key corporate governance voting issues that have come to the fore during the period under review. They will also cover our engagement with companies on behalf of our clients to promote more responsible practice on corporate governance, environmental and social issues. Our current Voting and Engagement Report is available on the Jupiter website www.jupiteronline.co.uk.

Jupiter's Approach to Corporate Responsibility:-

With more than 17 years experience of managing screened Socially Responsible Investment funds, Jupiter has developed a leading knowledge of corporate environmental and social performance issues.

Jupiter believes that there is a positive relationship between the environmental and social performance and financial performance of companies. This is based upon evidence that sound management of environmental and social issues is an indicator of good corporate management. Conversely, we believe that there is increasing evidence that failure to embrace issues relating to the concepts of sustainable development and corporate responsibility can have a negative impact on companies' financial performance. In some instances, where companies have failed to manage the risks associated with these issues, through weak environmental management or human rights policies, this failure has been linked to poor share price performance.

Jupiter's SRI and Governance Team engages with investee companies to encourage them to improve their environmental and social performance. This engagement focuses on promoting environmental sustainability and social wellbeing where we consider this is aligned with the improvement of financial performance. To achieve this, it is the SRI and Governance Team's aim to establish a positive, constructive and ongoing dialogue with the senior management of investee companies.

Jupiter believes that, where appropriate, all companies should have robust processes to manage and minimise damaging environmental impacts. We therefore expect companies to report publicly on the systems they have put in place to manage their environmental impacts and to provide relevant data on performance.

Accordingly, Jupiter expects companies to comply with the ABI Disclosure Guidelines on Social Responsibility (the Guidelines). These guidelines take the form of disclosures, which institutions would expect to see included in the report and accounts of listed companies. Specifically they refer to disclosures relating to board responsibilities and to policies, procedures and verification.

With regard to the board, the company should state in its report and accounts whether:

- *the board takes regular account of the significance of social, environmental and ethical (SEE) matters to the business of the company*
- *the board has identified and assessed the significant risks to the company's short and long term value arising from SEE matters, as well as the opportunities to enhance value that may arise from an appropriate response*

- *the board has received adequate information to make this assessment and that account is taken of SEE matters in the training of directors*
- *the board has ensured that the company has in place effective systems for managing significant risks, which, where relevant, incorporate performance management systems and appropriate remuneration incentives.*

With regard to policies, procedures and verification, the report and accounts should:

- *include information on SEE-related risks and opportunities that may significantly affect the company's short and long-term value, and how they might impact on the business*
- *describe the company's policies and procedures for managing risks to short and long term value arising from SEE matters. If the report and accounts states that the company has no such policies and procedures, the board should provide reasons for their absence*
- *include information about the extent to which the company has complied with its policies and procedures for managing risks arising from SEE matters*
- *describe the procedures for verification of SEE disclosures. The verification procedure should be such as to achieve a reasonable level of credibility.*

Jupiter believes there is a clear overlap between the Guidelines and the disclosure requirements of the Operating and Financial Review (OFR) which will apply to all listed companies with financial years beginning on or after 1 April 2005. The SRI and Governance Team plans to track company compliance with the Guidelines ahead of OFR requirements coming into force, and to engage with companies where disclosure is lacking. Where we conclude that a company has not disclosed sufficient information on SEE risks, we may vote against the report and accounts.

Corporate Responsibility and Engagement

Jupiter's engagement policy is applied to Jupiter's unit and investment trusts as well as to a range of institutional and other client portfolios.

Engagement focuses on promoting environmental sustainability and social wellbeing where we consider that this is either aligned with the improvement of financial performance or risk management. To achieve this, it is the SRI and Governance Team's aim to establish a positive, constructive and ongoing dialogue with the senior management of companies whose shares are held within the portfolios managed by Jupiter to encourage them to address the environmental and social impacts of their business activities.

Most of the SRI and Governance Team's engagement is with UK companies through one-on-one meetings with company management or through written communication. From time to time, we may also work alongside other investment managers to take advantage of the combined influence of a wider shareholder group.

How we select companies for corporate responsibility engagement

Initially, the SRI and Governance Team will carry out background research on the key environmental and social issues facing a company and the sector in which it operates, analysing the company's environmental and social performance. This will include third party research from relevant organisations including Non-Governmental Organisations, trade associations and brokers.

The SRI and Governance Team's engagement with a company will then focus on the key environmental and social issues which we believe have the potential to affect the company's financial performance or risk profile. These may include:

- *management of environmental risk*
- *management of reputational risk*
- *maximising cost savings*
- *development of new business opportunities.*

Periodically the SRI and Governance Team chooses a selection of companies for engagement, taking into account those investee companies in which we have a meaningful shareholding. The focus of this engagement may be on a specific industry sector or on a specific environmental or social issue.

The SRI and Governance Team reports on its corporate responsibility engagement in our biannual Voting and Engagement Report which is available on the Jupiter website www.jupiteronline.co.uk.

Note: For further details of the environmental and social issues considered as part of Jupiter's research and engagement process, please see 'A Guide to Jupiter's Socially Responsible Investment Funds' www.jupiteronline.co.uk.

About Jupiter

Jupiter Asset Management Limited is an investment management subsidiary of Commerzbank AG which manages assets for a range of institutional and private clients. It manages both segregated and pooled pension funds, charities, investment trusts and acts as Investment Adviser for the Jupiter range of unit trusts. Included in this are several Socially Responsible Investment (SRI) funds.

Jupiter's Socially Responsible Investment and Governance Team

Jupiter has committed significant resources to its Socially Responsible Investment and Governance Team. This integrated team of six undertakes research on social, environmental and corporate governance performance of companies.

For further information, please contact:

Emma Howard Boyd, Head of Socially Responsible Investment and Governance
ehowardboyd@jupiter-group.co.uk

Cynthia Pinniger, Corporate Governance Analyst
cpinniger@jupiter-group.co.uk

Jupiter Asset Management Limited

1 Grosvenor Place
London
SW1X 7JJ
Tel: 020 7412 0703
Fax: 020 7412 0705

www.jupiteronline.co.uk

Authorised and regulated by the Financial Services Authority

Jupiter's Corporate governance and voting policy was printed by Beacon Press using their **pureprint**® environmental print technology on paper made from at least 75% post-consumer waste. Beacon Press is accredited to ISO14001 and EMAS. The electricity was generated from renewable sources and vegetable inks were used throughout. Beacon Press is a Carbon Neutral® company.



Jupiter Asset Management Limited 1 Grosvenor Place London SW1X 7JJ

Tel: 020 7412 0703 Fax: 020 7412 0705

www.jupiteronline.co.uk

Authorised and regulated by the Financial Services Authority